

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name White Cloud Sherman Utilities Authority	County Newaygo
Fiscal Year End 6/30/06	Opinion Date 8/31/06	Date Audit Report Submitted to State 9/29/06	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Hendon & Slate, P.C.		Telephone Number 231-924-6890	
Street Address 711 W. Main Street		City Fremont	State MI
		Zip 49412	
Authorizing CPA Signature 	Printed Name Jodi DeKuiper, CPA		License Number 1101021180

**WHITE CLOUD/SHERMAN
UTILITIES AUTHORITY
NEWAYGO COUNTY, MICHIGAN**

FINANCIAL STATEMENTS

JUNE 30, 2006

TABLE OF CONTENTS

	<u>Page</u>
Board Members	ii
Independent Auditor's Report	1
Management's Discussion and Analysis	2 - 4
Statement of Net Assets - Enterprise Fund	5
Statement of Revenues, Expenses, and Changes in Net Assets - Enterprise Fund	6 - 7
Statement of Cash Flows - Enterprise Fund	8
Notes to the Financial Statements	9 - 16

WHITE CLOUD/SHERMAN UTILITIES AUTHORITY

Board Members

Stanley Stroven, Sr.	Chairman
Dale Twing	Vice-Chairman
Richard Besser	Trustee
Ronald Carrozza	Trustee
Christine Tiernan	Trustee
Gail Hitts	Recording Secretary



Hendon & Slate, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS



Utility Authority Board
White Cloud/ShermanUtilities Authority
Newaygo County
White Cloud, MI 49349

Independent Auditor's Report

We have audited the accompanying financial statements of the White Cloud/Sherman Utilities Authority, Newaygo County, Michigan, as of June 30, 2006 and for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free from material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the White Cloud/Sherman Utilities Authority, Newaygo County, Michigan, at June 30, 2006 and the results of its operations and cash flows of its proprietary fund types for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis included in the financial section of the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. We did not examine this data and, accordingly, do not express an opinion thereon.

Hendon & Slate

Hendon & Slate, P.C.
Certified Public Accountants
August 31, 2006

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WHITE CLOUD/SHERMAN UTILITIES AUTHORITY

Management's Discussion and Analysis (MD&A)

Year Ended June 30, 2006

Using this Annual Report

This annual report consists of two parts - *management's discussion and analysis* (this section) and the *basic financial statements*. The basic financial statements include the following information:

- Statement of Net Assets
- Statement of Revenues, Expenses and Changes in Net Assets
- Statement of Cash Flows
- Notes to the Basic Financial Statements

The statement of net assets provides balances as of the end of the reporting period. The statement of revenues, expenses and changes in net assets provides information related to the activities of the Authority during the year. The statement of cash flows presents detailed information about the Authority's cash collections and disbursements. The notes to the basic financial statements explain some of the information in the financial statements and provide more detailed data.

Authority as a Whole

The White Cloud/Sherman Utilities Authority was organized to operate and maintain a sewage disposal system. The municipalities of the City of White Cloud and Sherman Township created the Authority.

The Authority's primary source of revenue is from user fees, representing 82% of total revenues. The user fee per quarter for the year ended June 30, 2006 was \$47.70 for residential users and \$47.70 times the assigned equivalent user factor for non-residential users. The Authority is considering a rate increase for the first time in many years. This increase may be necessary to offset an increasing deficit between capital payoffs and debt requirements as well as the shortage between user fees and operating expenses. Without such a rate increase, the Authority will continue the need to use their savings to meet debt requirements and pay operating expenses.

The Authority charges \$2,500, with a minimum \$750 down payment, for initial connections into the sewer system. The remaining balance may be financed by the Authority over 30 years at 6% interest. The Authority has passed a resolution (effective July 1, 2004) requiring the customer to pay the \$2,500 connection fee as well as being responsible for the fees to an independent contractor to make the connection. Previously, the Authority used the \$2,500 connection fee to pay the independent contractor for the connection. An additional provision of the new resolution makes lateral repairs and maintenance 100% the responsibility of the customer. Previously, the Authority covered the cost of necessary lateral repairs.

Management's Discussion and Analysis (Continued)

The table below contains key financial information in a condensed format between the current year and the prior year:

	<u>6/30/2006</u>	<u>6/30/2005</u>
Current Assets	\$ 452,377	\$ 478,663
Noncurrent Assets	<u>4,169,962</u>	<u>4,333,893</u>
Total Assets	<u>\$ 4,622,339</u>	<u>\$ 4,812,556</u>
Current Liabilities	\$ 70,521	\$ 64,440
Noncurrent Liabilities	<u>692,500</u>	<u>742,500</u>
Total Liabilities	<u>\$ 763,021</u>	<u>\$ 806,940</u>
Net Assets		
Invested in Capital Assets-Net of Debt	\$ 2,905,313	\$ 3,005,488
Unrestricted	<u>954,005</u>	<u>1,000,128</u>
Total Net Assets	<u>\$ 3,859,318</u>	<u>\$ 4,005,616</u>
Revenues		
User Fees	\$ 314,931	\$ 324,558
Other	<u>17,366</u>	<u>18,035</u>
Total Revenues	332,297	342,593
Expenses	<u>(478,595)</u>	<u>(475,493)</u>
Change in Net Assets	<u>\$ (146,298)</u>	<u>\$ (132,900)</u>

Governmental Activities

All of the Authority's financial information is for business-type activities. Therefore, no governmental activities are reported.

The Authority's Fund

The Authority uses an Enterprise Fund to account for the activities of its Sewer Fund.

General Fund Budgetary Highlights

The Authority uses an Enterprise Fund to account for the activities of its Sewer Fund. Budgetary requirements do not exist for Enterprise Funds as they do for governmental-type funds such as a General Fund. Therefore, no budgetary highlights are reported.

Debt Administration

At year end, the Authority has \$742,500 in notes outstanding. The debt resulted from the issuing of bonds for the purpose of creating the sewer system.

Management's Discussion and Analysis (Continued)

Additional information about the Authority's long-term debt obligation can be found in Note D on page 15 of this report.

Economic Factors

The Authority's financial position has been affected by the following factors: 1) The Authority's customer base remained consistent with prior years; 2) the flow rate decreased slightly compared to past years; 3) A new business (a wood pellet manufacturer) is considering a move into the area and may hook into the system; and 4) The resolution passed by the Authority effective July 1, 2004 regarding the changes to the connection fee and responsibility for repairs and maintenance will decrease the expenditures the Authority will be responsible for in future years.

Contacting the Authority's Management

This financial report is intended to provide our citizens, taxpayers, customers, creditors and investors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the resources it receives. If you have questions about this report or need additional information, contact the Recording Secretary of the Authority, White Cloud/Sherman Utilities Authority, C/O Gail Hitts, 60 W. Baseline Road, P.O. Box 725, White Cloud, MI 49349.

WHITE CLOUD/SHERMAN UTILITIES AUTHORITY

Statement of Net Assets - Enterprise Fund June 30, 2006

ASSETS

Current Assets

Cash and Cash Equivalents	\$	344,277
Accounts Receivable-Billings		74,604
Inventory		6,051
Prepaid Expenses		<u>27,445</u>

Total Current Assets 452,377

Noncurrent Assets

Accounts Receivable-Tap Fees		519,039
Property, Plant and Equipment (at cost)	\$	7,332,357
Less: Accumulated Depreciation		<u>(3,681,434)</u>
Net Property, Plant and Equipment		<u>3,650,923</u>

Total Current Assets 4,169,962

Total Assets \$ 4,622,339

LIABILITIES

Current Liabilities

Accounts Payable	\$	4,850
Accrued Compensated Absences		4,394
Accrued Wages		3,726
Accrued Retirement		1,845
Withholdig Taxes Payable		5,706
Current Portion of Long-Term Debt		<u>50,000</u>

Total Current Liabilities 70,521

Noncurrent Liabilities

Lease Payable-Net of Current Portion		<u>692,500</u>
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Total Liabilities 763,021

NET ASSETS

Invested in Capital Assets-Net of Debt		2,905,313
Unrestricted		<u>954,005</u>

Total Net Assets 3,859,318

Total Liabilities and Net Assets \$ 4,622,339

The Notes to the Financial Statements are an integral part of this statement.

WHITE CLOUD/SHERMAN UTILITIES AUTHORITY

Statement of Revenues, Expenses and Changes in Net Assets - Enterprise Fund For the Fiscal Year Ended June 30, 2006

REVENUES

Sales	
City of White Cloud	\$ 195,047
Sherman Township	119,884
Fees and Penalties	6,944
Miscellaneous	<u>1,934</u>
 Total Revenues	 323,809

EXPENDITURES

Legislative Expenses	
Salaries	<u>5,200</u>
 Total Operating Expenses - Legislative	 5,200
 Operating Maintenance Expenses	
Salaries	44,511
Operating Supplies	12,641
Utilities	33,996
Repairs and Maintenance	29,786
Permits	3,650
Other Services	<u>1,349</u>
 Total Operating Maintenance Expenses	 125,933
 Depreciation Expense	 150,175

The Notes to the Financial Statements are an integral part of this statement.

Administrative and General Expenses	
Salaries	\$ 66,776
Taxes - FICA	8,879
Retirement	9,411
Health Insurance	38,962
Professional Services	3,800
Office Supplies	2,715
Insurance	27,084
Miscellaneous	1,132
Memberships	802
Utilities and Paging	<u>2,045</u>
 Total Administrative and General Expenses	 <u>161,606</u>
 Total Operating Expenses	 <u>442,914</u>
 Operating Loss	 (119,105)
 NONOPERATING REVENUES (EXPENSES)	
Interest Earned on Investments	11,307
Interest Expense	<u>(38,500)</u>
 Total Nonoperating Revenues (Expenses)	 <u>(27,193)</u>
 Change in Net Assets	 (146,298)
 Net Assets - July 1, 2005	 <u>4,005,616</u>
 Net Assets - June 30, 2006	 <u><u>\$ 3,859,318</u></u>

The Notes to the Financial Statements are an integral part of this statement.

WHITE CLOUD/SHERMAN UTILITIES AUTHORITY

Statement of Cash Flows - Enterprise Fund For the Year Ended June 30, 2006

Cash Flows from Operating Activities:	
Cash Received from Operating Activities	\$ 67,337
Cash Flows from Non-Capital Financing Activities:	
Principal and Interest Paid on Debt	(88,500)
Cash Flows from Capital Financing Activities:	
Purchase of Capital Assets	(3,110)
Cash Flows from Investing Activities:	
Interest Income	<u>11,307</u>
Net Decrease in Cash and Cash Equivalents	(12,966)
Cash and Cash Equivalents at Beginning of Year	<u>357,243</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 344,277</u></u>
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities:	
Operating Loss	\$ (119,105)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation Expense	150,175
Change in Assets and Liabilities:	
Decrease in Accounts Receivable-Billings	13,757
Decrease in Accounts Receivable-Tap Fees	16,866
Increase in Prepaid Expenses	(437)
Increase in Accounts Payable	1,189
Decrease in Accrued Compensated Absences	(1,209)
Increase in Accrued Retirement	1,845
Increase in Withholding Taxes Payable	2,621
Increase in Accrued Wages	<u>1,635</u>
Net Cash Provided by Operating Activities	<u><u>\$ 67,337</u></u>

The Notes to the Financial Statements are an integral part of this statement.

WHITE CLOUD/SHERMAN UTILITIES AUTHORITY

Notes to the Financial Statements
For the Year Ended June 30, 2006

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of White Cloud/Sherman Utilities Authority (the "Authority") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units.

In June 1999, the GASB issued Statement no. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. In 2003-2004 the Authority adopted this statement. Certain of the significant changes in the statement include the following:

- A Management's Discussion and Analysis (MD&A) section providing an analysis of the Authority's overall financial position and results of operations.

- Financial statements prepared using full accrual accounting for all of the Authority's activities.

- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to the financial statement).

The following is a summary of the significant accounting policies:

1. REPORTING ENTITY

The White Cloud/Sherman Utilities Authority is organized pursuant to the provisions of Act 233 PA 1955, as amended. The incorporating municipalities that created this Authority were the City of White Cloud and Sherman Township, which are designated as the Constituent Municipalities. The Authority is located in Newaygo County and its purpose is to provide sewer system services to the residents of the Constituent Municipalities. The Authority is governed by a six member Utility Authority Board appointed by the participating governments and is responsible for the operation of the Authority.

The Authority's financial statements include all activities of the Authority's operations. There are no governmental departments, agencies, institutions, commissions, public authorities or organizations within the Authority, which its appointed officials may exercise oversight responsibility, that have been excluded. Oversight responsibility is considered to be derived from the Authority's power and include, but is not limited to, financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability of fiscal matters.

Also, using the same criteria above, the Authority's financial statements include the accounts of all Authority operations.

2. There is a potential for the component unit to provide certain financial benefits to, or impose certain financial burdens on, the primary government.

Based on this criteria, there are no other entities included in this report.

2. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

Enterprise funds use the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Enterprise funds are used to account for operations that (a) are financed and operated in a manner similar to private business enterprise - where the intent of the governing body is that the costs (Expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that the periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

3. CAPITAL ASSETS

Capital Assets which include land and improvements, buildings and improvements and equipment are reported in the basic financial statements. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements, and other capital outlays that significantly extend the useful life on an asset are capitalized. The costs of normal repairs and maintenance that do not add to the value of the asset or materially extend assets lives are not capitalized. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Machinery & Equipment	10 Years
Sewer System	50 Years

4. CASH AND EQUIVALENTS

The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments, if any, with original maturities of three months or less from date of acquisition.

5. ACCOUNTS RECEIVABLE

Accounts receivable-billings represent services provided to customers within the service area. Delinquent utility billing are placed on the tax roll and are therefore considered to be ultimately collectible. Accounts receivable-tap fees represent amounts for original tap fees that have been financed by the Authority. The Authority permits the financing of these fees over 20 years at 6% interest.

6. USE OF ESTIMATES

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

7. LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognized bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources, while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

8. COMPENSATED ABSENCES

It is the Authority's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Authority employees are granted vacation and sick leave in varying amounts based on length on service. Upon termination, employees are paid accumulated vacation at full rates, but lose any unused sick leave. All vacation pay is accrued when incurred in the financial statements. A liability for this amount is reported on the enterprise fund balance sheet.

NOTE B DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the Authority to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The Authority is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Authority's Board has designated five banks for the deposit of funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government, bank accounts and CD's, bankers' acceptances of United States banks, and mutual funds under the Investment Company Act of 1940, but not the remainder of State statutory authority as listed above.

The Authority's deposits and investment policy are in accordance with statutory authority.

The Authority's deposits are carried at cost and consisted of the following:

Notes to the Financial Statements (continued)

	Carrying Value	Market Value
Independent Bank of West Michigan		
Checking	\$ (123)	\$ 10
Savings-Reserve	6,045	6,045
Savings-Replacement	5,353	5,353
NOW Money Market	99,049	99,049
Valley Ridge Bank		
Certificate of Deposit	5,128	5,128
State Farm Bank		
Certificate of Deposit	106,508	106,508
Fifth Third Bank		
Checking	17,380	17,380
Gerber Employees Federal Credit Union		
Savings	58,594	58,594
Savings	365	365
Certificate of Deposits	45,721	45,721
Petty Cash	257	257
Total Deposits	<u>\$ 344,277</u>	<u>\$ 344,410</u>
FDIC Insured	\$ 322,385	\$ 322,518
Uninsured	<u>21,892</u>	<u>21,892</u>
Total Deposits	<u>\$ 344,277</u>	<u>\$ 344,410</u>

Investments are normally categorized to give an indication of the level of risk assumed by the Authority; however, money market and cash management funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. Management believes the investment in the funds comply with the investment authority noted above.

NOTE C RECEIVABLES

Receivables as of year-end are as follows:

Sewer Sales	\$ 55,488
Delinquent	19,116
Tap Fees	<u>519,039</u>
Total	\$ 593,643

The accounts receivable represent sewer sales to Customers in the Authority's service area. Customers are billed quarterly in advance for sewer services provided in the prior quarter.

Notes to the Financial Statements (continued)

The Authority's policy is to place delinquent sewer receivables on the property tax rolls each year. The monies are eventually received through the county tax revolving fund program. Because of this policy, the account balances are considered current and collectible.

NOTE D NEWAYGO COUNTY DPW REVENUE BONDS

The Authority has a capital lease with GMAC Commercial Mortgage Corporation for the purchase of the sewer system assets. The Authority pays the lease out of revenues of the system. For the current year, the Authority paid interest of \$38,500 on the outstanding debt. The original amount of the capital lease was \$2,100,000. The City of White Cloud and Sherman Township are ultimately responsible for the debt. In the event that the Authority is unable to make debt service payments, the debt would be the responsibility of the City and Township as follows. The debt will be retired in the year 2020.

City of White Cloud	26.40%
Sherman Township	<u>73.60%</u>
Total	<u><u>100.00%</u></u>

	<u>6/30/2005</u>	<u>Retired</u>	<u>6/30/2006</u>
Change in Debt	<u>\$ 792,500</u>	<u>\$ 50,000</u>	<u>\$ 742,500</u>

Amounts required to amortize the revenue bonds are as follows:

<u>Fiscal Year</u>	<u>Interest Rate</u>	<u>Outstanding 6/30/2006</u>	<u>Interest Payable If Held to Maturity</u>	<u>Amount of Annual Maturity</u>
2007	5%	\$ 50,000	\$ 37,500	\$ 87,500
2008	5%	50,000	35,000	85,000
2009	5%	50,000	32,500	82,500
2010	5%	50,000	30,000	80,000
2011	5%	50,000	27,500	77,500
2012-2020	5%	<u>492,500</u>	<u>115,250</u>	<u>607,750</u>
Total		<u>\$ 742,500</u>	<u>\$ 277,750</u>	<u>\$ 1,020,250</u>

NOTE E DEFINED CONTRIBUTION PENSION PLAN

The Authority provided pension benefits to all of its full-time employees through a 403(b) defined contribution plan until April 30, 2006. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. As established by the Authority, the plan is funded by participants to the extent they elect to defer their compensation into the plan, and by a contribution from the Authority of 8% of each employee's gross regular-time wages. The Authority's contributions for each employee (plus interest allocated to the employee's account) are fully vested immediately upon deposit of the contribution by the Authority. During the year ended June 30, 2006 the Authority contributed \$7,566 on behalf of its employees to this plan. At May 1, 2006, this plan was replaced by a defined benefit pension plan.

NOTE F DEFINED BENEFIT PENSION PLAN

As of May 1, 2006 the Authority is a participant in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS), administered by the State of Michigan. The system provides the following provisions: Normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, non-duty-connected death and postretirement adjustments to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.25 percent times the final average compensation (FAC) with a maximum benefit of 80 percent of FAC. The most recent period for which actuarial data was available was for the fiscal year ended December 31, 2004.

MERS was organized pursuant to Section 12a of Act #156, Public Acts of 1851 (MSA 5.333(a); MCLA 46.12(a), as amended, State of Michigan. MERS is regulated under Act No. 427 of the Public Acts of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report the includes financial statements and required supplementary information for notes to the system. That report may be obtained by writing to the MERS at 447 North Canal Street, Lansing, MI 48917-9755.

Funding Policy - The obligation to contribute to and maintain the system for these employees was established by the Authority's personnel policy, which does not require employees to contribute to the plan. The Authority is required to contribute at an actuarially determined rate; the rate was 10.53 percent as of May 1, 2006.

Annual Pension Cost - During the fiscal year ended June 30, 2006, the Authority's contributions totaling \$1,845 were made in accordance with contribution requirements. The employer contribution rate has been determined based on the entry age normal cost funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8 percent and annual salary increase of 4.5 percent based on an age-related scale to reflect merit, longevity, and promotional salary increases.

GASB 25 and GASB 27 Information - Due to the timing of joining MERS so close to the end of the year, the information necessary to comply with GASB Statements Number 25 and 27 was not available for this audit. In future years, the necessary information will be provided.

All entries and the annual employer contribution amount were based on the actuarial methods and assumptions used in the December 31, 2004 actuarial valuations. The entry age normal actuarial method was used to determine the entries at disclosure.

NOTE G DEFERRED COMPENSATION PLAN

The Authority offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all Authority employees, permits deferral of a portion of earnings until future years. The assets of the plan are held in trust, as described in Section 457 of the Internal Revenue Code for the exclusive benefit of the participants (employees) and their beneficiaries. The custodian thereof of the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators, Nationwide Retirement Services, are agents of the employer for purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement 32, plan balances and activities are not reflected in the Authority's financial statements.

It is the opinion of the Board that the Authority has no liability for losses under the plan but does have the duty of due care that would be required for an ordinary prudent investor.

Notes to the Financial Statements (continued)

NOTE H CAPITAL ASSETS

Capital asset balances and activity for the year ended June 30, 2006 were as follows:

<u>Business-Type Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets not Being Depreciated				
Land	\$ 1,211	\$ -	\$ -	\$ 1,211
Capital Assets Being Depreciated				
Sewer Plant	7,234,028	-	-	7,234,028
Machinery and Equipment	94,008	3,110	-	97,118
Subtotal	7,328,036	3,110	-	7,331,146
Less Accumulated Depreciation for				
Sewer Plant	3,467,866	144,681	-	3,612,547
Machinery and Equipment	63,393	5,494	-	68,887
Subtotal	3,531,259	150,175	-	3,681,434
Net Capital Assets being depreciated	3,796,777	(147,065)	-	3,649,712
Business-Type Activities Total				
Capital Assets - Net of Depreciation	<u>\$ 3,797,988</u>	<u>\$ (147,065)</u>	<u>\$ -</u>	<u>\$ 3,650,923</u>

NOTE I RELATED PARTIES

The White Cloud/Sherman Utilities Authority is the agent for sewer services for both Sherman Township and the City of White Cloud.

NOTE J RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Authority carries commercial insurance. Liabilities in excess of insurance coverage, if any, are reported when it is probable that a loss has occurred and the amount of the loss can be reasonable estimated.



Hendon & Slate, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS



September 6, 2006

White Cloud/Sherman Utilities Authority
60 W. Baseline Road
P.O. Box 725
White Cloud, MI 49349

Dear Board Members:

We have audited the financial statements of White Cloud/Sherman Utilities Authority as of and for the year ended June 30, 2006. As part of our audit, we studied and evaluated the Authority's internal control. Because this study was only part of the overall audit plan, it is not intended to be a complete review of all your accounting procedures; and therefore, would not necessarily disclose all weaknesses in your system. Accordingly, we offer the following comments and recommendations.

ACCOUNTING SYSTEM/GENERAL LEDGER

We would again like to commend the billing clerk on the condition of the books and records. The records were balanced and very well maintained. Several changes have been implemented by the billing clerk in recent years and the condition of the books and records has improved greatly as a result.

PRIOR COMMENTS

After our previous audit, we suggested to the Board that certain improvements could be made to the vacation policy, the need (or lack thereof) for restricted cash accounts and the backing up of the accounting system. We were pleased to see that the Board carefully considered these suggestions and made the appropriate changes.

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September 6, 2006

Page 2

USAGE RATE

Per discussions with the Manager, the Board has been considering a rate increase for some time. To assist the Board in their decision making process, we have provided the attached graphical analysis of various trends. Several of the graphs show that operating income has continued to decrease each year. This means that the Authority is not able to pay its current operating expenses from its operating revenues. An analysis of breakeven rates shows that in order to meet actual operating expenses, the current rate needed to be \$50.82 per EUF instead of the \$47.70 per EUF that is currently being charged. These trends suggest that a rate increase could benefit the Authority, but only after careful consideration by the Board. We would be happy to assist the Board with further analysis should it be deemed necessary or helpful.

We appreciate the courtesy extended to us during our audit. We will be happy to assist in the implementation of any of the recommendations set forth in this letter or to answer any questions regarding the audit.

This report is intended solely for the information and use of the Board and management of White Cloud/Sherman Utilities Authority, this restriction is not intended to limit distribution of this report, which is a matter of public record.

Hendon & Slate

Hendon & Slate, P.C.
Certified Public Accountants